

**SUMMARY OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

**HELD ON
Monday, August 21, 2006
5:30 p.m., MST**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Lawrence Trachtenberg, Chairperson of the IC, called the meeting to order at 5:39 p.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Lawrence Trachtenberg, Chairperson
Mr. Karl Polen
Mr. Christopher Harris
Ms. Anne Mariucci – via teleconference

Also present: Dr. Keith Meredith

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action Regarding Asset Allocation Study – Part 1

Mr. Gary R. Dokes, ASRS Chief Investment Officer, introduced the ASRS Asset Allocation Study, giving an overview of its objectives and importance. The purpose of the Study is to utilize modern portfolio theory and investment pragmatism to construct a mix of investment assets that collectively represent a targeted risk/return profile which is anticipated to achieve a fund's macro-level investment goals and objectives. Completion of the Study is anticipated in the 4th quarter of 2006.

The Study will be segregated into two (2) parts. Part 1 will focus on facilitating an academic and practical discussion of institutional investment asset classes and their role in ASRS macro-level strategic asset allocation policy.

Part 2 of the Study will incorporate input from the IC Trustees and provide specific asset allocation recommendations from the ASRS and NECP as it relates to broad asset classes, investment strategies, performance benchmarks, value/growth, passive/active and other portfolio construction implementation issues.

Ms. Anne Mariucci joined the meeting at 5:40 PM.

Mr. Dan Kapanak, Manager of Investment Analysis, elaborated on some of the observations of the Study. Mr. Allan Martin and Mr. Chris Levell, New England Pension Consultants (NEPC) presented a profile of ASRS investments, offered their institutional perspectives on various asset classes, and presented preliminary conclusions. Also, they detailed an asset-liability analyses which included projected ASRS funded status, economic cost and other tangential matters related to varying asset allocation mixes. Discussion ensued regarding strategic/tactical investment perspectives, risk/return assumptions, and efficient frontiers for both an unconstrained and constrained mix of assets. Frontier graphs presented showed the current asset mix for the ASRS and the median asset allocation for public fund, endowment and corporates. Various asset allocation mixes were discussed.

3. Presentation and Discussion Regarding ASRS Real Estate Program

Mr. Eric Rovelli, Real Estate Portfolio Manager, gave an overview of the following activities which have been completed or are currently being conducted:

1. Modifications to the ASRS Real Estate Investment Program were approved by the Board on May 19, 2006. Ms. Linda Assante, Principal, The Townsend Group, summarized the key elements of this program, the target portfolio's composition, and the projected timeline for the remainder of 2006.
2. With the assistance of Townsend, the Real Estate Committee has developed and approved the ASRS Real Estate Program Implementation Plan. This plan reflects the planned activities and sets targets for the Real Estate Program during the balance of 2006 and early 2007.
3. The Investment Management Division (IMD) and ASRS' outside legal counsel are currently performing due-diligence and reviewing fund documents on three closed-end real estate funds recommended by Townsend. The following are commitments expected by end of third quarter:
 - a. CIM Urban Real Estate Investment Trust (REIT) fund - \$75 million – Invest in substantially stabilized real estate assets in urban markets throughout North America which CIM has targeted for opportunistic investment. This fund would be included in our Core-Private allocation.
 - b. RREEF Global Opportunities Fund II - \$50 million – Opportunistic strategies that seek to identify dislocations and illiquidity in the global real estate market. This fund would be included in our Non-Core: High Return allocation.
 - c. PLA (Prudential) Retail Fund I - \$60 million – Investing in the development of enclosed retail shopping centers in Mexico. This fund would be included in our Non-Core: High Return allocation.

Other Real Estate Program activities include:

1. A Core-Private commingled fund search will occur with funds committed in the fourth quarter 2006.
2. A Core-Public international REIT/Real Estate Operating Company (REOC) active manager search will be conducted. Funding is expected in early 2007.
3. The ASRS will select and commit dollars to one to three additional Non-Core funds.

Mr. Eric Rovelli explained that the program is small now, and mainly has REITs, so there will be some temporary imbalances. Based on the above and on the ASRS Real Estate Program Implementation Plan, it is anticipated that over \$800 million or approximately half of the 6% Total Fund allocation to real estate will be committed before the end of first quarter 2007.

4. Presentation and Discussion Regarding ASRS Total Fund Performance Attribution Report

Mr. Dokes presented the newly redesigned the Quarterly Total Fund Attribution report. In response to periodic questions regarding ASRS total fund performance, the IMD redesigned the report to improve readability and ensure logical flow of information. This report is generated by the IMD and is included in the IMD section of the Director's Report to complement the official ASRS Total Fund performance reports which are presented by Mercer each quarter.

5. Presentation and Discussion Regarding Future IC Agenda Topics

Mr. Dokes noted that the following topics are high priorities for the next IC meeting:

1. Asset Allocation Study – Part 2

Part 1 of the Asset Allocation Study has focused on the development of the strategic asset allocation. Part 2 of the Asset Allocation Study will address implementation of the strategic asset allocation and Total Fund construction issues. This process will require analysis of and decisions regarding the total level of active risk in the portfolio, active vs. passive allocation, value vs. growth balance, allocation of active risk across various asset classes, tactical asset allocation strategies, portfolio rebalancing, and performance benchmarks.

2. Performance Evaluation Framework

The IMD will present to the IC and facilitate a discussion of multi-faceted topics relating to codifying a comprehensive performance evaluation framework that addresses 1) appropriate performance benchmarks (i.e. absolute, relative, peer comparison) at the total fund, asset class, and manager levels, and 2) consistent methodologies for the hiring, monitoring, and firing of ASRS investment managers.

6. Call to the Public

None.

The meeting adjourned at 7:35 PM.

Respectfully submitted,

Lisa Hanneman, Secretary

Date

Gary Dokes, Chief Investment Officer

Date